Internal Review Methodology

Army Internal Review Symposium

Jun-Jul 04

It is better to debate a question without settling it than to settle a question without debating it.

Joseph Joubert

Your Expectations

ANNUAL PLANNING

Condition

There are knowns, known unknowns, and unknown unknowns.

Author unknown

To be prepared

is half the victory.

Miguel De Cervantes

Enterprise Risk Management

ERM is a process, effected by an entity’s corporate board, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events, that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

--COSO Fall 2003

In Other Words…

Risk is a concept used to express uncertainty about events and/or their outcomes that could have a material effect on the goals of an organization

- Paul Walker, Phd., University of Virginia

Risk Management = Misnomer

Risk is not managed, since risk is a conceptual property.

Organizations are managed to anticipate the uncertainty characterized by risk in the environment

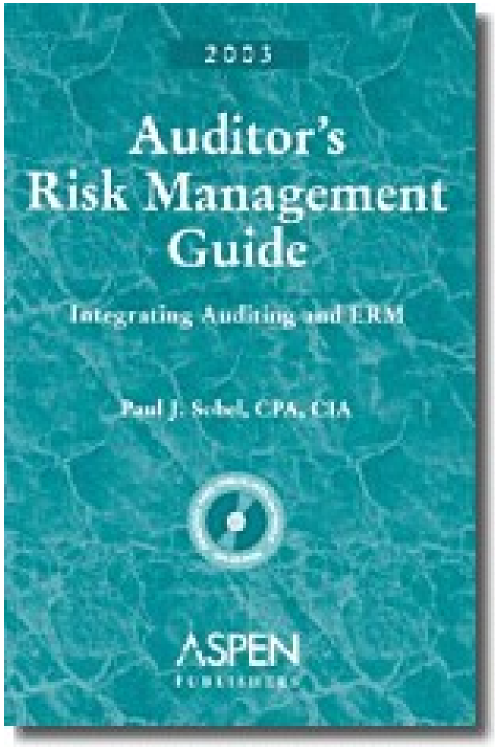
Risk Management & Internal Review

- GAGAS: http://www.gao.gov/govaud/ybk01.htm

-Standards for the Professional Practice of Internal Audit: http://www.theiia.org/iia/index.cfm?doc_id=124

- Guiding Principles for Evaluators: http://www.eval.org/evaluationdocuments/aeaprin6.html

Internal Review & Risk Management



2003

Auditor's Risk Management Guide

Integrating Auditing and ERM

Paul J. Sobel, CPA, CIA

ASPEN PUBLISHERS

Auditor's Risk Management Guide by Paul J. Sobel, CPA, CIA

Risk Management & Internal Review

GAGAS:

1.16 “Audit organizations may also seek to achieve improvement …’constructive engagement approaches’…for use in responding to current risks, correcting internal control deficiencies…”

Risk Management & Internal Review

GAGAS:

3.15 Auditors may participate on committees or task forces in a purely advisory capacity…Auditors may also provide tools and methodologies, such as best practice guides, benchmarking studies, and internal control assessment methodologies that can be used by management.

Risk Management & Internal Review

IIA: Planning Standard 2010 -

The chief audit executive should establish risk-based plans to determine the priorities of the internal Review activity, consistent with the organization’s goals.

Risk Management & Internal Review

IIA: Practice Advisory 2010-2

The organization’s risk strategy should be reflected in the internal audit activity’s plan. A coordinated approach should be applied to leverage synergies between the organization’s risk management and internal audit processes.

Risk Management & Internal Review

IIA: Nature of Work Standard 2100 -

The internal audit activity evaluates and contributes to the improvement of risk management, control and governance systems.

Risk Management & Internal Review

IIA: Practice Advisory 2110-1

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

Risk Management & Internal Review

IIA: Planning Standard 2120.A1

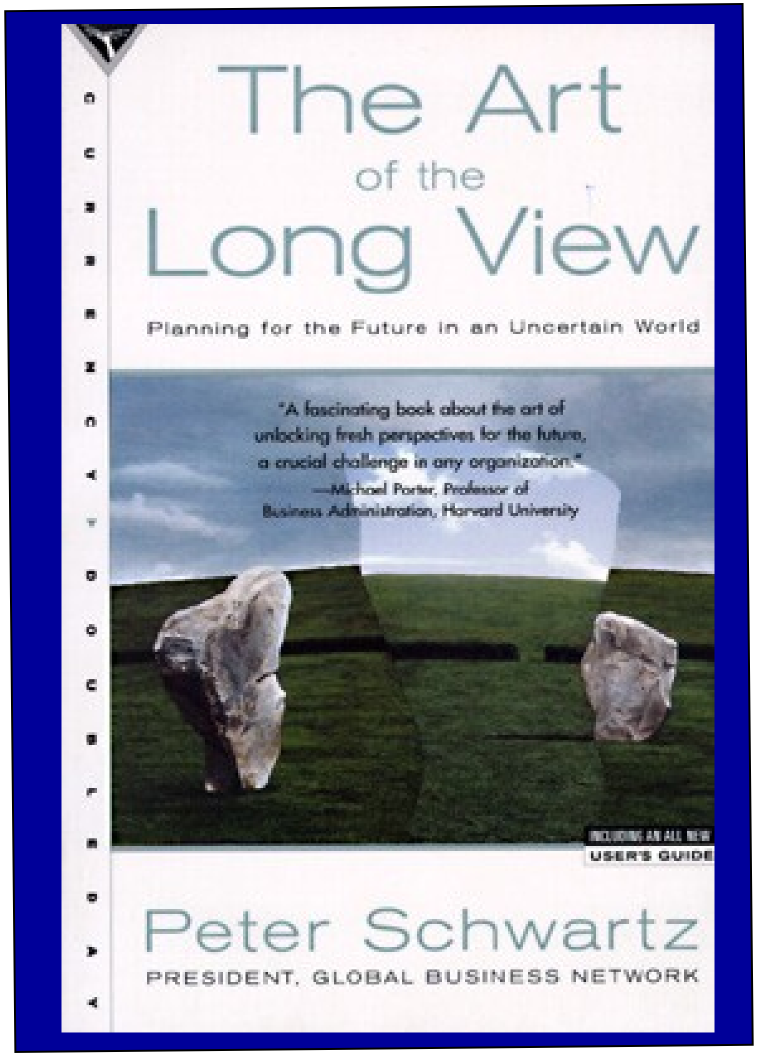
Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organizations’ governance, operations, and information systems.

Risk Management & Internal Review

IIA: Practice Advisory 2120.A1-2

Control self-assessment (CSA) methodology can be used by managers and internal auditors for assessing the adequacy of the organization’s risk management and control processes…

Future-Focused Planning Strategy



The Art of the Long View

Planning for the Future in an Uncertain World

"A fascinating book about the art of unlocking fresh perspectives for the future, a crucial challenge in any organization."
—Michael Porter, Professor of Business Administration, Harvard University

INCLUDING AN ALL NEW USER'S GUIDE

Peter Schwartz

PRESIDENT, GLOBAL BUSINESS NETWORK

The Art of the Long View by Peter Schwartz

IR Guide
Chapter 4 – Annual Planning

Annual Internal Review Plan

Risk Oversight – Making sure management has instituted processes to identify and address the major risks the organization faces.

Which of the following risks are included in your internal Review plan?

1. Financial Risks
2. Operational Risks
3. Strategic Risks
4. Other

Annual Internal Review Plan

Start with Organization’s Strategic Plan

1. Identify Review Universe
2. Risk Scenarios
   - Understand Business Process
   - Framework for Discussing Risk with Mgt
   - Process to Open Imagination about Significant Risk Potential
3. Annual Review Plan

Annual Internal Review Plan

IR Guide – Annual Plan Considerations

1. Management Control Program
2. Audit/Oversight Committee
3. Customer Input

Annual Internal Review Plan-
Risk Assessment Tools

Audit Frequency in Months			
Performance	Completely Satisfactory	Satisfactory w/minor findings	Unsatisfactory
Risk ($)			
HIGH	12	10	8
MED	16	12	10
LOW	20	16	12

Based on single risk factor--$ and results of prior Reviews

TODAY’S BRAIN GAME

26 = L. of the A.

7 = W. of the W.

1001 = A. N.

12 = S. of the Z.

54 = C. in the D. (with the J.)

ENGAGEMENT PLANNING

Risk Management & Internal Review

“Work is to be adequately planned.”

GAGAS: 7.03 – 7.09

Risk Management & Internal Review Engagements

IIA: Planning Standard 2210.A1

When planning the engagement, the internal auditor should identify and assess risks relevant to the activity under review. The engagement objectives should reflect the results of the risk assessment.

Risk Management & Internal Review Engagements

IIA: Practice Advisory 2210.A1-1

Internal Auditors should consider the following suggestions when assessing risk during engagement planning….

Risk Considerations

- Activity Objectives and Goals
- Activity Policies, Plans, Procedures
- Organizational Information
- Budget Information
- Prior Reviews/Audits
- Correspondence Files (Congressionals)
- Authoritative/Technical Literature appropriate to activity

REVIEW FIELD WORK

There is nothing so annoying as arguing with a person who knows what they are talking about.

Anonymous

DA IR Guide

Quick Response Reviews: Chapter 6

Consult & Advisory Services: Chapter 7

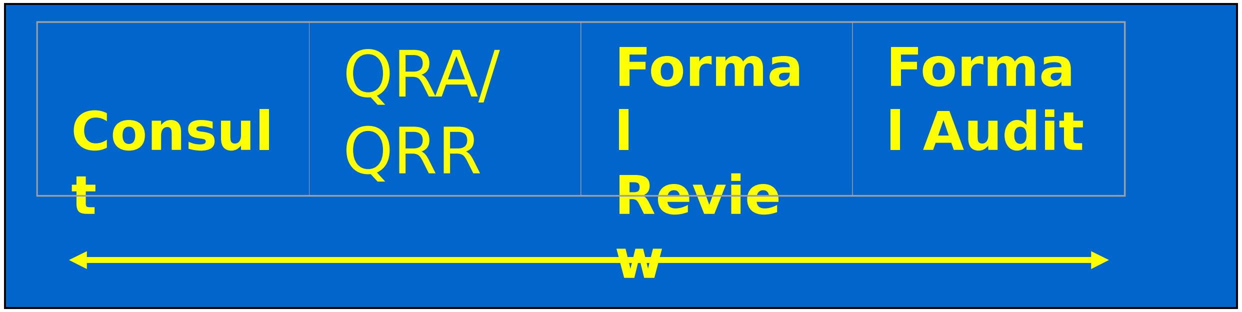
Liaison: Chapter 8

Follow-Up: Chapter 8

Formal Reviews

IR Guide: Chapter ___

Scheduled on the IR Plan



Consult	QRA/ QRR	**Formal Review**	**Formal Audit**

Quick Response Reviews

IR Guide: Chapter 6

Time Sensitive

1-2 Objectives

Limited Scope

Specific, Selected Fieldwork Methods

Reduced Workpaper Requirements

Consult/Advisory Services

IR Guide: Chapter 7

Consultation

- Verbal or Written Advice: “Comments”
- Short Time Frame
- Based on Available Information – Limited Research

Advice

- Comparison/Analysis of proposed Management Actions
- Cost Analysis
- Management Control Program Administration

Liaison

IR Guide: Chapter 8

IR – Principal Agent for Command RE: External Audit Agencies

Communication between External Agency & Command

Coordination – Interviews, Site Visits, etc.

Assist Command with Responses/Comments

Follow-Up

IR Guide: Chapter 8

Follow-Up = Integral Part of Review Planning

An audit finding accepted by management = OBVIOUS RISK

Required:

Formal IR Review Findings

DODIG & GAO Audits Addressed to the Commander

AAA Reports subject to the AR 36-2 Reply Process

May Be Necessary for other Audits/Reviews

Follow-Up

IR Guide: Chapter 8

WHAT	**WHEN/HOW OFTEN**
Final Follow-up Reports	Approval by “command group”
Status of Open Recommendations*	As a minimum every 6 months
■ BY AGE	
Approaching 18 months	e.g., April and October
	[After completion of 1574 Reports]
BY SIGNIFICANCE	
Reopened Recommendations*	As required/occurs

Automated Data Gathering

Automated Data Extraction & Analysis

- ACL
- IDEA
- Access
- Excel
- Others?

Fraud

Automated Fraud Detection and Prevention

- ACL
- IDEA
- DATAS
- Others?

IT Security

Network Security Assessment Software

- Kane Security Analyst
- CyberCop Scanner
- Internet Scanner
- BindView
- NetRecon

Self Assessments

Automated Control/Quality Self Assessments

- Internal Self-Developed software
- CARDmap
- AuditSystem
- OptionFinder
- The Resolver

Monitoring

Continuous Monitoring Software

- Access
- ACL
- IDEA
- SAS
- SQL/Internal Developed Software

Documentation

Automated Workpapers

- MS Office Suite
- TeamMate
- AutoAudit
- AuditSystem
- CARDmap

Some arguments are sound and nothing more.

Richard Armour

Evidence

GAGAS: 7.52 thru 7.61

“Evidence should be sufficient, competent, and relevant to support a sound basis for audit findings, conclusions, and recommendations….”

Review Findings

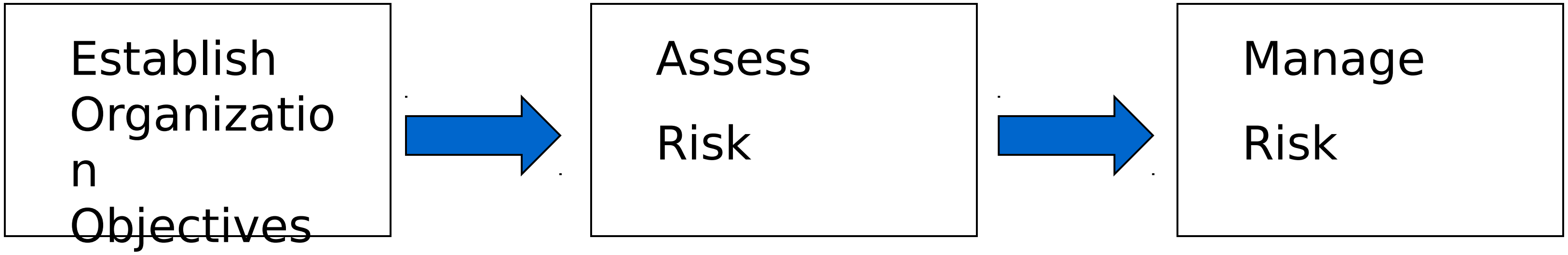
GAGAS: 7.62 thru 7.65

“…Condition…

…Effect…

…Cause…”

Management : Risk-Based Environment



Establish
Organizatio
n
Objectives

Assess

Risk

Manage

Risk

Identify It

Measure It

Prioritize It

Control It

Avoid It

Share It

Proposed COSO Sequence

ENGAGEMENT REPORTS

Review Reports

Format Dependent on Engagement: Generally--

- Objectives
- Scope
- Methodology
  - Qualifications RE: Standards
- Findings
- Recommendations
- Management Comments

Review Risk Assessment

Word Substitution – "Risk" vs. "Control"

- Immediate communication links – Mgmt thinks in terms of risk.
- Less friction about Review process—avoids some negative overtones
- Natural flow from Review objective to Review report
- Richer Review planning: Ask Mgmt what risks they worry about

The Review Matrix:

An Alternative Report Format?

	What is the process Now?	What Could Be…The Ideal	So What?..If We Do Nothing	What changes are already Happening?	Recommended Actions?	
Issue #1						
Issue #2						
Issue #3						
Issue #4						
Issue #5						

I have discontinued long talks on account of my throat. Several members have threatened to cut it.

SERVICE INTEGRITY TRUST CANDOR

ARMY INTERNAL REVIEW